

Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 EUR-12 IO-14 ISO-00 FEA-01 AGRE-00

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TO SECSTATE WASHDC 4989

INFO AMEMBASSY BRUSSELS

AMCONSUL RIO DE JANEIRO

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USEEC

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TAGS: ETRD, EAGR, EEC, BR

SUBJECT: BRAZIL

REFS: (A) BRUSSELS 15448, (B) BRASILIA 8767, (C) TOFAS 289

1. SUMMARY. THE AGREEMENT BETWEEN BRAZIL AND THE EEC BY WHICH BRAZIL FORESTALLED AN EEC DUMPING COMPLAINT AGAINST BRAZILIAN EXPORTS OF SOY MEAL AND CAKE BY AGREEING TO RAISE TAXES ON THESE PRODUCTS APPEARS TO HAVE SUCCEEDED IN DEFUSING THIS TRADE DISPUTE. THE BRAZILIAN DECISION TO EMPLOY A DIRECT EXPORT TAX RATHER THAN RAISE THE DOMESTIC SALES TAX TO IMPLEMENT THIS AGREEMENT, HOWEVER, INDICATES THAT THE GOB HAS NOT CHANGED ITS BASIC POLICY OF SUPPORTING THE EXPORT OF PROCESSED OR MANUFACTURED PRODUCTS VIS A VIS RAW MATERIALS, END SUMMARY

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2. IN EARLY NOVEMBER, BRAZIL AND THE EEC REACHED AN AGREEMENT TO SETTLE THE EEC DUMPING COMPLAINT AGAINST BRAZILIAN EXPORTS OF SOY MEAL AND CAKE. IN GENERAL TERMS THE AGREEMENT REQUIRED THE GOB TO PROGRESSIVELY RAISE DOMESTIC TAXES ON THE EXPORT OF SOY MEAL AND CAKE (TO 11.1 PERCENT BY NOVEMBER 1, 1978) IN ORDER TO REDUCE THE DIFFERENTIAL BETWEEN THE TAXATION OF

THESE PRODUCTS AND THAT OF RAW BEANS (13 0/0). EC SOYBEAN CRUSHERS HAD ARGUED THAT THE PREVIOUS DIFFERENCIAL (5 0/0 FOR MEAL AND CAKE VS. 13 0/0 FOR BEANS) PROVIDED AN INDIRECT SUBSIDIZATION OF BRAZILIAN SOYBEAN MEAL EXPORTS (REFTELS A AND C). LOCAL PRESS COVERAGE OF THIS AGREEMENT TENDED TO EMPHASIZE THAT BRAZIL HAD AGREED TO MODIFY ITS TAX STRUCTURE ON SOYBEAN PRODUCTS IN ORDER TO FORESTALL THE IMPOSITION OF EEC COUNTERVAILING DUTIES ON THESE EXPORTS.

T3. IT WAS WIDELY EXPECTED BY THE BRAZILIAN PRESS THAT THE GOB WOULD RAISE THE ICM (A SALES TAX WHOSE PROCEEDS ACCRUE TO THE STATE GOVERNMENTS) TO IMPLEMENT THE AGREEMENT. IT WAS ANNOUNCED NOVEMBER 18, HOWEVER, THAT THE GOB NATIONAL MONETARY COUNCIL (CMN) DECIDED TO USE ITS RECENTLY REINSTATED POWER TO CREATE AN EXPORT TAX (REFTEL B) TO IMPLEMENT THE BRAZIL-EEC AGREEMENT. THE REASONS FOR THIS DECISION INCLUDE: THE ADMINISTRATIVE SIMPLICITY OF THE EXPORT TAX COMPARED TO CHANGING THE ICM OR REINSTITUTING A "CONFISCO CAMBIAL" AS FOR COFFEE AND CACAO; THE FACT THAT PROCEEDS FROM THE EXPORT TAX WOULD ACCRUE TO THE FEDERAL GOVERNMENT; AND THE FACT THAT THE EXPORT TAX COULD BE EASILY CHANGED TO STIMULATE THE EXPORT OF MANUFACTURED GOODS. THE EXPORT TAX IS SIMPLER TO ADMINISTER THAN THE "CONFISCO CAMBIAL" SINCE THE LATTER, ALTHOUGH IN EFFECT AN EXPORT TAX, ALSO INCLUDES A MECHANISM TO RECYCLE THE UNCLASSIFIED

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FUNDS COLLECTED BACK TO THE PRODUCING SECTOR, I.E., MONEY COLLECTED FROM THE COFFEE "CONFISCO CAMBIAL" GOES TO A SPECIAL COFFEE FUND WHICH IS NEED INTER ALIA TO FINANCE COFFEE TREE REPLANTING. THE MAJOR ADVANTAGE OF AN EXPORT TAX OVER A CHANGE IN THE ICM IS THAT CHANGES IN THE EXPORT TAX CAN BE MADE WITHOUT HAVING TO CONSIDER THE REVENUE AFFECT ON INDIVIDUAL BRAZILIAN STATES (THE ICM IS A MAJOR SOURCE OF REVENUE FOR STATES, PARTICULARLY THOSE WITH LARGE AGRICULTURAL EXPORTS SUCH AS RIO GRANDE DO SUL AND PARANA).

4. THE PRESS (O ESTADO DE SAO PAULO OF NOVEMBER 20) COMMENTED THAT AN EXPORT TAX COULD EASILY BE USED FOR ANTI-INFLATION PURPOSES. FIRST, IT COULD BE APPLIED TO INSULATE THE DOMESTIC BRAZILIAN MARKET FROM SHARP INCREASES IN WORLD PRICES FOR MAJOR BRAZILIAN EXPORTS. FOR INSTANCE, IF WORLD SOYBEAN PRICES WERE TO EXPERIENCE A NEW MAJOR INCREASE, THE GOB COULD INCREASE THE EXPORT TAX ON SOYBEANS TO KEEP DOMESTIC PRODUCER RETURNS AND WHOLESALE AND RETAIL PRICES CONSTANT, THEREBY AVOIDING THE INFLATIONARY EFFECT OF HIGHER

INCOMES AND AGGREGATE DEMAND. SECOND, THE FUNDS COLLECTED VIA THE EXPORT TAX FLOW INTO THE NATIONAL TREASURY ACCOUNT HELD IN THE MONETARY AUTHORITY (THUS CONTRACTING THE MONEY SUPPLY -- ML -- AND THE MONETARY BASE). TO BE USED BY THE FINANCE MINISTRY UNDER GUIDANCE FROM THE CMN.

5. COMMENT. THE MOVE TO REDUCE THE DIFFERENTIAL IN TAXES IMPOSED ON PROCESSED AND NON-PROCESSED SOYBEANS WILL LIKELY BE SATISFYING TO U.S. SOYBEAN PROCESSORS. HOWEVER, THE DECISION TO IMPOSE AN EXPORT TAX INDICATES THAT THE GOB MAY IN THE FUTURE WANT TO USE THIS MECHANISM TO PROMOTE THE EXPORT OF BRAZILIAN MANUFACTURED GOODS, EVEN THOUGH IN THE CASE OF SOYBEANS THE EXPORT UNCLASSIFIED

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TAX WAS USED FOR THE OPPOSITE REASON. AS THE O ESTADO ARTICLE SAID, "(THE EXPORT TAX) IS ALSO AN INSTRUMENT OF STIMULUS FOR THE EXPORT OF MANUFACTURED GOODS, SINCE IT PERMITS THE GOVERNMENT -- WHEN IT DEEMS IT NECESSARY -- TO TAX RAW MATERIALS EXPORTED WITH THE OBJECTIVE OF BEING USED IN A FOREIGN COUNTRY TO MAKE A MANUFACTURED GOOD WHICH COMPETES WITH A SIMILAR PRODUCT MADE IN BRAZIL...." FORTUNATELY, GOB POLICY MAKERS REALIZE THAT SUCH A USE OF THE EXPORT TAX WOULD LEAD TO CONFRONTATIONS WITH THE EEC AND OTHER INDUSTRIAL COUNTRIES. A FINANCE MINISTRY SPOKESMAN HAS INDICATED TO THE FIN-ATTACHE THAT THE ADDED TAX ON SOYBEAN PRODUCTS MAY BE SHIFTED TO THE ICM IN THE FUTURE (SEVERAL STATE GOVERNMENTS ARE ALREADY REQUESTING THAT THE ICM BE INCREASED TO SOLVE THE EEC SOYBEAN PROBLEM BECAUSE OF THE STATES' DESPERATE NEED FOR REVENUE) AND THAT SOME MORE GENERAL SOLUTION TO THE PROBLEM MUST BE FOUND TO AVOID COUNTERVAILING ACTION BY BRAZIL'S TRADING PARTNERS WHILE STILL PERMITTING PROMOTION OF BRAZIL'S EXPORTS. THE U.S., OF COURSE, HAS TAKEN A STRONG STAND IN THE GATT AGAINST EXPORT RESTRAINTS OF THE KIND ENVISIONED IN THE O ESTADO ARTICLE. END COMMENT. JOHNSON

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